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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS WEEK OF NOVEMBER 3

REFS: SANTIAGO 975 AND PREVIOUS

11. (SBU) SUMMARY: This continues a series of regular updates on major developments in Chile's economy since the acceleration of global financial turmoil. By week's end, November 7, there was a decrease in copper prices, some appreciation in the exchange rate, and losses/gains in the stock market. There was an unexpected increase in economic activity in September and inflation in October. The GOC announced a \$1.5 billion package to assist small- and medium-sized enterprises and home buyers. Experts at a seminar on the impact of the global financial crisis in Chile predicted a decrease in growth and Foreign Direct Investment. Banco de Chile contacts reported the financial crisis has impacted the construction industry, cut some international credit lines, and although liquidity is currently adequate, the GOC needs to switch to longer-term measures. END SUMMARY.

Copper Prices Decrease

12. (U) Copper prices on the London Metals Exchange decreased three days in a row to close the week at about \$1.71/pound on November 7, a loss of approximately 16% from its close on October 30. Antofagasta PLC, one of Chile's largest private copper consortiums, announced it was moving ahead with planned investments of \$3 billion despite the recent decline in copper prices. The group believes prices will rise again in the medium-term, though it is unlikely they will return to the highs at the beginning of 2008.

Chilean Peso Appreciates Against U.S. Dollar

13. (U) The exchange rate closed higher for the week on November 7, at 638.3 Chilean Pesos to 1 U.S. Dollar (appreciating almost 6% from its close on October 30).

An Up Week For The Stock Market

14. (U) The IPSA closed at 2575.12 points on November 7, gaining about 3% on the close of October 30.

Economic Activity Up, GDP Growth Will Probably Fall

15. (U) Chile's monthly indicator of economic activity (IMACEC) jumped to an unexpected 5.5% in September. However, a Central Bank survey of economic expectations (based on the opinions of national

experts) forecast 4% growth in 2008 and 2.5% in 2009 (downward revisions for both figures from previous months).

An Unexpected Jump In Inflation

¶16. (U) The Consumer Price Index (CPI) rose unexpectedly by 0.9% in October (it's highest rate for the month of October since 2002), bringing the annual inflation rate to 9.9%, its highest level in fourteen years. The increase was driven by continuing high food and fuel prices (e.g., the largest increase in the CPI was for tomatoes which registered a 45% increase in price).

¶17. (U) The latest CPI calculations do not include the recent, significant decline in oil prices. In fact, the inflation rate is expected to decrease in the medium-term due to falling commodity prices, and may drop to 4.5% in 2009. However, the annual inflation estimate for 2008 remains at over 8.5%. October's inflation rate increases the likelihood the Central Bank will raise or at least maintain the current interest rate (8.25%).

Government Announces Package for SMEs

¶18. (U) On November 4, the GOC announced a \$1.5 billion plan to assist small- to medium-size enterprises (SMEs) and homebuyers. The plan will provide temporary subsidies to those in the market for a new home (primarily middle-income families) as well as guarantees for certain mortgages. The measure is designed to spur new construction and employment. The Small Business Guarantee Fund (FOGAPE) and the Chilean Economic Development Agency (CORFO) will have more funds and guarantees to make available to SMEs. The GOC also will inject \$500 million into Banco Estado (state-owned). This step is intended to increase lending as private banks compete with Banco Estado's new rates/loans. Preliminary reaction from Chilean opposition parties to the plan was positive.

Seminar On Impact Of Financial Crisis

¶19. (U) At a November 6 seminar sponsored by Chile's major financial periodical, "Diario Financiero," Alberto Ramos, Goldman Sachs of Latin America, predicted the global growth rate will slow as a result of the financial crisis. Latin American economic growth will probably average 2.7%. Ramos predicted Chile's GDP growth will fall from 3.6% in 2008 to 2.6% in 2009 as a correction to commodity prices. He also projected a 30% decrease in Foreign Direct Investment (FDI) globally.

¶10. (U) Martin Wolf, "London Financial Times," predicted a deep, global recession, which would take 3-4 years to return to 2007 GDP levels. Sebastian Edwards, an economist and professor at UCLA, projected a 16-24 month recession. He was optimistic about Chile's economic future, foreseeing a deceleration in growth, but not a collapse of the financial system.

Bank Reports Impact on Real Economy

¶11. (SBU) Embassy contacts at Banco de Chile described how the financial crisis has impacted Chile. The construction sector has been hit hard. Most construction projects, in which the Bank is invested, have been suspended. At the beginning of the financial crisis, some international lines of credit to Chilean banks had been severed, in particular by one German bank. During the uncertainty surrounding Wells Fargo's purchase of Wachovia (which has a large presence in Chile's banking sector), many experts worried about that more lines of credit would be cut. However, to date, those lines of credit reportedly remain intact.

¶12. (SBU) An Embassy contact at Banco de Chile reiterated that the Central Bank and Ministry of Finance have moved with alacrity to maintain liquidity in financial markets, which was currently adequate. However, he noted these were short-term measures, and the GOC needed to start thinking about long-term steps. In particular, he thought the tax burden in Chile was quite high, especially for small- to medium-sized enterprises. He recommended the GOC should consider, for example, repealing the stamp tax, paid on each new

loan.
SIMONS